

7/6/64

**GRIDOIL
FREEHOLD LEASES
LTD.**



ANNUAL REPORT 1964



GRIDOIL FREEHOLD LEASES LTD.

(Incorporated in the Province of Alberta, Canada)

HEAD OFFICE: 330 - 9th Avenue South West, Calgary, Alberta

1964 ANNUAL REPORT

CONTENTS	Page
Report to the Shareholders	2
Exploration and Production	3
Statement of Profit and Loss	5
Balance Sheet	6
Notes to Financial Statements	8
Source and Application of Working Capital	9
Auditors' Report	10
Directors and Officers	i 1

The Annual General Meeting of the Shareholders will be held at the Head Office of the Company, 330 - 9th Ave. S.W., Calgary, Alberta on April 29, 1965.

Report to the Shareholders

PROGRESS

1964 was the most active and successful in the Company's history. New revenue and production levels were attained during the year.

PROFIT

A net profit of \$708,416 was recorded for the year, an increase of 564% over the \$106,635 for 1963. Revenue from crude oil and natural gas sales, royalty, and other income amounted to \$2,169,250, an increase of 59% over the \$1,356,808 recorded in 1963. Cash Flow from operations increased 81% to \$1,397,545.

CAPITAL EXPENDITURES

Land acquisition, exploration costs, and development drilling totalled \$2,067,857. The benefit from these expenditures will be reflected in increased revenue for 1965, and future years. Banking arrangements have been made to maintain working capital and to continue an active exploration and development program.

RESERVES

New reserves discovered during 1964 totalled over 3,300,000 bbls., of which 2,000,000 bbls. were proven. Total proven and probable reserves, as prepared by an independent firm of petroleum consultants, are in excess of 13,000,000 bbls. of which 8,200,000 bbls. are proven.

ACCOUNTING POLICY

The company adopted in 1964, the total cost concept of accounting whereby all exploration and intangible development costs are capitalized when incurred, then depleted by the unit of production method based on the Company's total proven reserves. This change resulted in the net earnings being increased from approximately \$508,000 to \$708,416 for the year. The total cost concept is used by several U.S. Oil companies and has been recently adopted by several leading Canadian independent oil companies.

AMALGAMATION

The Supreme Court of Canada in a judgment handed down on October 6th, 1964 upheld and confirmed the amalgamation of Gridoil Freehold Leases Ltd. and Norcan Oils Ltd. No further appeal can be taken from this judgment.

STAFF

The Directors wish to acknowledge the sincere efforts and initiative of all personnel during the past year.

On Behalf of the Board,

March 29, 1965

S. C. NICKLE,
President

EXPLORATION & PRODUCTION



DRILLING

During 1964, the Company participated in the drilling of 66 exploratory and development wells in Alberta and Saskatchewan. 38 wells were successfully completed resulting in 20.35 net oil wells, .25 net gas wells, and 4 royalty interest wells.

ALBERTA

Two additional wells were drilled and completed in the Kaybob South field making a total of 4 wells on production.

In the Brooks-Bantry area, 11 development wells were drilled resulting in 9 oil wells, one gas well, and one abandonment.

Eleven wildcat wells were drilled in south-western Alberta, which resulted in discovery wells in the Brooks and Hays area respectively.

Two exploratory tests were drilled on large acreage blocks in north-western Alberta in the Evansburg and Bistcho Lake areas. These tests were subsequently abandoned.

SASKATCHEWAN

9 Development wells were drilled in the Hastings area, resulting in 7 completions and 2 unproductive wells.

In the Benson area, the Company purchased 2 producing wells and drilled 5 development wells. Further development drilling is in progress.

Two wells were drilled and completed at Steelman on acreage purchased during the year. Two wells were drilled and completed in the Parkman area. Three exploratory wells drilled in south-east Saskatchewan were dry and abandoned.

LAND HOLDINGS — December 31, 1964

	ACRES	
	Gross	Net
Petroleum and Natural Gas Leases		
Alberta	202,985	87,732
Saskatchewan	168,098	166,906
Manitoba	5,266	5,266
	<u>376,349</u>	<u>259,904</u>
Petroleum and Natural Gas Reservations and Permits		
Arctic Islands	7,017,242	615,576
Total Acreage	<u>7,393,591</u>	<u>875,480</u>
ROYALTY ACREAGE		
Alberta		10,880
Saskatchewan		52,944
		<u>63,824</u>

PRODUCTION

Production for the year amounted to 857,750 net barrels of oil after payment of royalties or an average rate of 2,350 barrels per day, an increase of 26% over the average daily rate for 1963.

At December 31, 1964, the Company held varying interests in 1899 gross oil wells equivalent to 84.70 net oil wells.

CANADIAN WILLISTON MINERALS LTD.

Gridoil owns 63.4% of the outstanding share capital and operates Canadian Williston Minerals Ltd.

During 1964, a total of 15 wells were drilled on Canadian Williston lands. Eleven royalty interest wells were drilled by other companies, of which 9 were oil wells and 2 were abandoned as unproductive. Four wells were drilled in which Canadian Williston had a working interest of 20% to 50%. Two of these wells were placed on production in the latter part of 1964.

Canadian Williston's 1964 net income totalled \$179,270 (including non-recurring income of \$85,466) compared to \$123,277 for 1963 (including non-recurring income of \$70,707).



GRIDOIL FREEHOLD LEASES LTD.

Statement of Profit and Loss

For the year ended December 31, 1964

REVENUE

Sales of crude oil and natural gas		\$ 1,931,953
Royalty income		50,941
Other income		186,356
		<u>2,169,250</u>

EXPENSES

Operating, administrative and general	\$ 597,295	
Interest on long-term debt	174,410	771,705
	<u> </u>	<u> </u>

PROFIT before the undernoted charges		1,397,545
Provision for depletion and depreciation (Note 1)	680,600	
Amortization of note discount and issue expense	8,529	689,129
	<u> </u>	<u> </u>

NET PROFIT for the year		<u><u>\$ 708,416</u></u>
-------------------------	--	--------------------------

Statement of Retained Earnings

For the year ended December 31, 1964

RETAINED EARNINGS since February 18, 1963 at January 1, 1964	\$ 106,635
ADD Net Profit for the year	<u>708,416</u>
RETAINED EARNINGS since February 18, 1963 at December 31, 1964	<u><u>\$ 815,051</u></u>

GRIDOIL FREEHOLD

Balance Sheet

(with comparative figures)

ASSETS

	1964	1963
CURRENT ASSETS		
Cash	\$ 137,955	\$ 866,392
Short-term investments, at cost which approximates market	1,600,000	300,000
Accounts receivable	455,212	263,252
Due from Canadian Williston Minerals Ltd.	1,095	356,915
Due from parent, Scenic Oils Ltd.	1,776	44,986
Inventories —		
Crude oil, at market	24,312	10,856
Oil well materials, at cost	11,964	10,595
Prepaid expenses	47,725	41,693
	<u>2,280,039</u>	<u>1,894,689</u>
INVESTMENT IN SHARES		
Canadian Williston Minerals Ltd. at cost (63.4% owned)	1,505,700	1,505,700
Scenic Oils Ltd. at cost less dividends received	337,500	337,500
	<u>1,843,200</u>	<u>1,843,200</u>
CAPITAL ASSETS, at cost		
Petroleum and natural gas properties and related equipment (Note 1)	10,339,601	8,347,266
Other equipment	95,772	76,594
	<u>10,435,373</u>	<u>8,423,860</u>
Less — Accumulated depletion and depreciation (Note 1)	3,906,370	3,249,906
	<u>6,529,003</u>	<u>5,173,954</u>
OTHER ASSETS, at cost		
Mortgage receivable	675,000	675,000
Sundry shares and royalties	92,133	111,353
Refundable deposits	43,587	60,203
Unamortized note discount and issue expense	30,228	38,757
	<u>840,948</u>	<u>885,313</u>
	<u>\$11,493,190</u>	<u>\$ 9,797,156</u>

D LEASES LTD.

ember 31, 1964

December 31, 1963)

LIABILITIES

CURRENT LIABILITIES

	1964	1963
Accounts payable	\$ 402,262	\$ 394,501
Accrued liabilities	96,707	71,678
Current portion of bank loan	371,512	212,500
	<u>870,481</u>	<u>678,679</u>

LONG-TERM DEBT

5¾% Bank loan, secured by the assignment of specific producing properties, payable in equal monthly instalments of approximately \$31,000, less current portion	2,260,033	1,381,500
5½% Convertible sinking fund redeemable notes, Series A, due July 1, 1976, less \$40,000 purchased for cancellation in 1964 (Note 2)	1,590,000	1,630,000
	<u>3,850,033</u>	<u>3,011,500</u>

SHAREHOLDERS' EQUITY

Share capital —		
Authorized — 20,000,000 shares of a par value of nine cents each, of which 78,240 shares are reserved for conversion of notes		
Issued — 11,196,668 shares	1,007,700	1,007,700
Capital in excess of par value (Note 3)	4,949,925	4,992,642
Retained earnings, per accompanying statement	815,051	106,635
	<u>6,772,676</u>	<u>6,106,977</u>

COMMITMENTS (Note 4)

Signed on behalf of the Board,

S. C. NICKLE, SR., Director

A. R. MORISON, Director

\$11,493,190

\$ 9,797,156

GRIDOIL FREEHOLD LEASES LTD.

Notes to Financial Statements

1. Prior to 1964, dry holes, exploration expenses and carrying charges on undeveloped properties were written off as incurred and costs of undeveloped properties were written off when surrendered. Lease, drilling and other costs applicable to productive properties were capitalized and depleted on an over-all basis by the unit of production method based on estimated proven and probable additional oil and gas reserves and production equipment was depreciated by the straight-line method at the rate of 10% per annum.

In 1964, the accounting for oil and gas properties was changed so that commencing January 1, 1964 all costs of exploring for and developing oil and gas reserves are capitalized. The investment in oil and gas properties, including costs of undeveloped properties and production equipment, is being depleted on an over-all basis by the unit of production method based on the estimated proven oil and gas reserves. This change had the effect of increasing the reported net profit for the year ended December 31, 1964 by approximately \$200,000.

2. The 5½% convertible notes are convertible until July 1, 1967 into capital stock of the Company on the basis of 48 shares per \$1,000 of principal.
The sinking fund requirements of the 5½% notes have been satisfied until 1968 in which year \$17,500 will be due and \$187,500 annually thereafter.
The note discount and issued expense is being amortized by the straight-line method over the term of the notes.

3. The change in capital in excess of par value is summarized hereunder:

Balance, January 1, 1964	\$ 4,992,642
Less — Litigation expense with respect to amalgamation	42,717
	<hr/>
Balance, December 31, 1964	\$ 4,949,925

4. The Company has a lease on an office building which expires in 1973 (with an option to renew). Under the terms of the lease the Company is required to pay all operating expenses and an annual rental of \$245,000. The major portion of the premises is currently subleased at annual rentals aggregating approximately \$314,000.
5. Under Canadian income tax law drilling and exploration expenditures, and lease acquisition costs since April 10, 1962, may be deducted from income in the year of expenditures, or, if such expenditures exceed the income for the year, the excess may be carried forward and applied against the income of subsequent years without limitation as to time. Subject to changes which may arise upon examination of the Company's tax returns by the income tax authorities, the balance of unclaimed expenditures of this nature approximated \$3,100,000 at December 31, 1964 and, accordingly, no income tax is payable in respect of the year 1964.

GRIDOIL FREEHOLD LEASES LTD.

Statement of Source and Application of Working Capital

For the year ended December 31, 1964

SOURCE OF FUNDS

Net profit for the year	\$ 708,416
Add non cash charges for depletion, depreciation and other items	720,264
Cash generated from operations	1,428,680
Proceeds from bank loan	1,250,000
Drilling deposits refunded (net)	16,616
Proceeds from sale of capital assets	32,208
	<u>2,727,504</u>

APPLICATION OF FUNDS

Expenditures for leases, well costs and equipment	2,067,857
Payments on bank loan	371,467
Litigation expense	42,717
Purchase of sundry assets	51,915
	<u>2,533,956</u>

INCREASE in working capital	193,548
WORKING CAPITAL at January 1, 1964	1,216,010
WORKING CAPITAL at December 31, 1964	<u>\$ 1,409,558</u>



Auditors' Report

To the Shareholders of

GRIDOIL FREEHOLD LEASES LTD.

We have examined the balance sheet of Gridoil Freehold Leases Ltd. as at December 31, 1964 and the statements of profit and loss and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the Company, the accompanying balance sheet and statements of profit and loss and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1964 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change (which we approve) in accounting for oil and gas properties as explained in Note 1 to the financial statements.

We also examined the statement of source and application of working capital for the year ended December 31, 1964, which is presented as supplemental information and, in our opinion, the statement presents fairly the information shown therein.

CALGARY, March 19, 1965

PRICE WATERHOUSE & CO.
Chartered Accountants

GRIDOIL FREEHOLD LEASES LTD.

330 Ninth Avenue S.W., Calgary, Canada

CAPITALIZATION

	Authorized	Outstanding
5½ % Convertible Sinking Fund Notes, Series A, maturing July 1, 1976	\$ 3,000,000	\$ 1,590,000
Capital Stock, par value 9c per share	†20,000,000 shares	11,196,668 shares

† 78,240 shares have been set aside against conversion of the Series A Notes.

DIRECTORS

ERIC CONNELLY	Calgary, Alberta
WILLIAM L. JAMES	Calgary, Alberta
ARTHUR R. MORISON	Calgary, Alberta
CARL O. NICKLE	Calgary, Alberta
S. C. NICKLE, SR.	Calgary, Alberta
SAM C. NICKLE	Calgary, Alberta

OFFICERS

S. C. NICKLE, SR.	President
SAM C. NICKLE	Vice-President
ARTHUR R. MORISON	Treasurer
WILLIAM L. JAMES	Secretary

BANKERS

Bank of Montreal

TRANSFER AGENTS AND REGISTRARS

CANADA

Guaranty Trust Company of Canada
Toronto and Calgary

U.S.A.

Empire Trust Company
New York, N.Y.

AUDITORS

Price Waterhouse & Co.

THE JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION

PUBLISHED WEEKLY

Subscription price, Five Dollars per Annum in Advance. Single Copies, Fifteen Cents.

Entered as Second-Class Matter, October 3, 1902.

Postpaid. Accepted for mailing at special rate of postage provided for in Act of October 3, 1917. Authorized by Act of October 3, 1917. Payment of Postage Guaranteed. Second-Class Postage Paid at Chicago, Ill.

Copyright, 1934, by American Medical Association

CHICAGO, ILL.

Published by the American Medical Association, 535 North Dearborn Street, Chicago, Ill. 60610. Second-class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes in this journal to JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION, 535 North Dearborn Street, Chicago, Ill. 60610. This journal is published weekly, except during the months of January and February, when it is published bi-weekly. The subscription price is \$5.00 per annum in advance. Single copies, 15 cents. Payment of postage guaranteed. Second-class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes in this journal to JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION, 535 North Dearborn Street, Chicago, Ill. 60610.

Published by the American Medical Association, 535 North Dearborn Street, Chicago, Ill. 60610. Second-class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes in this journal to JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION, 535 North Dearborn Street, Chicago, Ill. 60610. This journal is published weekly, except during the months of January and February, when it is published bi-weekly. The subscription price is \$5.00 per annum in advance. Single copies, 15 cents. Payment of postage guaranteed. Second-class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes in this journal to JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION, 535 North Dearborn Street, Chicago, Ill. 60610.

Published by the American Medical Association, 535 North Dearborn Street, Chicago, Ill. 60610. Second-class postage paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes in this journal to JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION, 535 North Dearborn Street, Chicago, Ill. 60610.

